

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION



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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY, AND FOR
ADJUSTMENTS TO ITS RATES AND
CHARGES FOR UTILITY SERVICE
FURNISHED BY ITS WESTERN GROUP
AND FOR CERTAIN RELATED
APPROVALS.

Docket No. W-01445A-15-0277

Arizona Corporation Commission

DOCKETED

MAY 11 2016

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RUCO'S NOTICE OF FILING

The RESIDENTIAL UTILITY CONSUMER OFFICE ("RUCO") hereby provides notice of
filing the Direct Testimony of David P. Tenney in support of the Settlement Agreement, in the
above referenced matter.

RESPECTFULLY SUBMITTED this 11th day of May, 2016.

Handwritten signature of Daniel W. Pozefsky
Daniel W. Pozefsky
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 11th day
3 of May, 2016 with:

4 Docket Control
5 Arizona Corporation Commission
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7 Phoenix, Arizona 85007

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ARIZONA WATER COMPANY
DOCKET NO. W-01445A-15-0277

DIRECT TESTIMONY
OF
DAVID P. TENNEY
IN SUPPORT OF THE
SETTLEMENT AGREEMENT

ON BEHALF OF THE
RESIDENTIAL UTILITY CONSUMER OFFICE

MAY 11, 2016

1

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EXECUTIVE SUMMARY

The Arizona Residential Utility Consumer Office ("RUCO") presents the direct testimony of Mr. David Tenney, Director of RUCO, in support of the Proposed Settlement Agreement ("Settlement" or "Agreement") on Arizona Water Company's (Western Region) request for a permanent rate increase. Mr. Tenney recommends that the Arizona Corporation Commission adopt the Proposed Settlement Agreement for the following reasons:

The Proposed Settlement Agreement reflects an outcome that is fair to both the ratepayer and Arizona Water Company and is in the public interest.

The Proposed Settlement Agreement is a comprehensive settlement agreement. Its terms settle a wide range of issues that were of interest to the parties.

RUCO supports the Proposed Settlement Agreement in its entirety because it contains numerous benefits to the consumer which will be discussed in Mr. Tenney's testimony.

The Proposed Settlement Agreement resolves several areas of importance to RUCO in the underlying rate case including; 1) Deferral of tank maintenance costs and Nitrate plant construction and operating costs for consideration of recovery in a future rate case; 2) Cost of Equity of 10.0 percent; 3) Company to adjust amortization period for M&I CAP charges from 20 years to 25 years; 4) AWC will maintain its accumulated depreciation balances and depreciation calculations in accordance with the Arizona Administrative Code; 5) The Company will maintain its account structure in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA"); and 6) AWC agreed that going forward it will use its best good faith efforts to reduce its cost of debt, and that any future debt will be prudently incurred under the most reasonable terms and lowest cost reasonably available. These issues were addressed satisfactorily in the Proposed Settlement Agreement and will be explained more fully in Mr. Tenney's testimony.

INTRODUCTION

Q. Please state your name, occupation and business address for the record.

A. My name David Tenney. I am Director for the Arizona Residential Utility Consumer Office ("RUCO"). My business address is 1110 W. Washington Street, Suite 220, Phoenix, Arizona 85007.

Q. Please state your background and qualifications for the record.

A. I joined RUCO in March of 2015. I served on the Navajo County Board of Supervisors, representing rural Arizona, from 2004 through 2015. I served as president of the County Supervisors Association of Arizona and was Chairman of the Navajo County Board of Supervisors. In addition, I have served on a number of local, state and national committees, including the Natural Resources Working Group, the Navajo County Regional Development Council, the Silver Creek Watershed Alliance Board, the County Supervisors' Association Legislative Policy Committee, Eastern Arizona Counties Organization, Environmental Economic Communities Organization and the Four Forest Restoration Initiative Steering Committee.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain RUCO's support of the Arizona Water Company's Western Region Settlement Agreement. ("Agreement").

1 **Q. Have you participated in other settlement negotiations?**

2 A. Yes. I have participated in settlement negotiations in other matters that
3 have come before the Arizona Corporation Commission ("ACC" or
4 "Commission"). These negotiations have resulted in reaching an accord
5 with the utility and the other settling parties, leading to the signing and
6 support of a settlement agreement.

7
8 **THE SETTLEMENT PROCESS**

9 **Q. Was the negotiation process that resulted in the Settlement**
10 **Agreement a proper and fair process?**

11 A. Yes. The Agreement is the result of several hours of negotiation and a
12 willingness among the parties to compromise. The negotiations were
13 conducted in a fair and reasonable way that allowed each party the
14 opportunity to participate. Furthermore, all parties were allowed to express
15 their positions fully.

16
17 **Q. Did all the parties sign the Agreement?**

18 A. Yes. All parties in this case have agreed to this Settlement.

19
20 **Q. Why is a negotiated settlement process an appropriate way to**
21 **resolve this matter?**

22 A. A settlement agreement, by its very nature, finds an acceptable middle
23 ground that the parties can support. All parties that participated in the

1 settlement talks were sophisticated parties who participated fully in the
2 ACC's regulatory processes.

3
4 Settlement negotiations began only after each party had the opportunity
5 to analyze AWC's filing for its Western Region, file its direct and rebuttal
6 testimonies, and read the direct testimony of other Interveners. Of course,
7 the Agreement in no way eliminates the ACC's constitutional right and
8 duty to review this matter and to make its own determination whether the
9 Agreement is truly balanced and the rates are just and reasonable.

10
11 **SUMMARY OF TESTIMONY**

12 **Q. Please summarize your testimony.**

13 A. The Agreement reflects an outcome that is fair to both the consumer and
14 AWC's Western Region and is in the public interest. Furthermore, this is a
15 comprehensive agreement that by its very terms settle a wide range of
16 issues that were of interest to the parties.

17
18 RUCO supports the Agreement because it contains numerous benefits to
19 the consumer. Those benefits include; 1) deferral of tank maintenance
20 expense and Nitrate plant construction costs and operating expenses to a
21 future rate case for consideration of recovery; 2) cost of equity of 10.0
22 percent; 3) increasing the deferral period on M&I CAP charges from 20
23 years to 25 years; 4) requiring the Company to comply with the Arizona

1 Rules and Regulations in maintaining proper depreciation accounting
2 records; 5) requiring the Company to comply with the proper version of
3 Uniform System of Accounts ("USOA") as published by the National
4 Association of Regulatory Utility Commissioners ("NARUC"); and 6) going
5 forward AWC will use its best efforts to reduce its cost of debt.

6
7 These benefits are addressed satisfactorily in the Agreement and will be
8 explained further in the following section in my testimony
9

10 **SETTLEMENT PROVISIONS**

11 **Q. In summary, what are the benefits to the residential consumer?**

12 **A.** Among the more significant benefits to the residential consumer:

- 13 • Deferral of tank maintenance costs and Nitrate plant construction costs
14 and operating expense. AWC was requesting that tank maintenance
15 costs be collected annually in even amounts for a period of fourteen
16 years and recovery of nitrate plant construction costs and expenses as
17 the plant was completed and placed in service but prior to the next rate
18 case filing. The Company has agreed to defer these costs until the
19 next rate case filing. (Section 5.0 and Section 6.2)
- 20 • Cost of Equity of 10.0% - In its initial filing AWC requested a 10.75%
21 Cost of Equity. As per the Settlement, the parties agreed to a 10.0%
22 Cost of Equity. (Section 3.1)

- 1 • The Company agreed to adjust the amortization period of the M&I CAP
- 2 charges from 20 years to 25 years. (Section 6.4)
- 3 • Compliance with Arizona Administrative Code – Accumulated
- 4 Depreciation balances will be maintained in accordance with the
- 5 requirements as set forth in the Arizona Administrative Code. A
- 6 depreciation study will be performed and accumulated depreciation
- 7 balances will be maintained in accordance with Arizona's requirements
- 8 and will be in place for all rate case filings with a test year ending in
- 9 2017 and thereafter. (Section 6.8)
- 10 • The Signatory Parties agree that AWC shall convert its Uniform
- 11 System of Accounts ("USOA") to the 1996 version of NARUC USOA,
- 12 but will continue using the current version until filing its next rate case
- 13 that uses a 2017 test year.
- 14 • AWC agrees that going forward it will use its best good faith efforts to
- 15 reduce its cost of debt, and that any future debt will be prudently
- 16 incurred under the most reasonable terms and lowest cost reasonably
- 17 available.

18

19 **PUBLIC INTEREST**

20 **Q. How is the public interest satisfied by the Agreement?**

21 A. The Agreement satisfies the public interest from RUCO's perspective in

22 that it provides favorable terms and protections for residential consumers

23 as defined above. The Agreement also satisfies the public interest by

- 1 • The Company agreed to adjust the amortization period of the M&I CAP
2 charges from 20 years to 25 years. (Section 6.4)
- 3 • Compliance with Arizona Administrative Code – Accumulated
4 Depreciation balances will be maintained in accordance with the
5 requirements as set forth in the Arizona Administrative Code. A
6 depreciation study will be performed and accumulated depreciation
7 balances will be maintained in accordance with Arizona's requirements
8 and will be in place for all rate case filings with a test year ending in
9 2017 and thereafter. (Section 6.8)
- 10 • The Signatory Parties agree that AWC shall convert its Uniform
11 System of Accounts ("USOA") to the 1996 version of NARUC USOA,
12 but will continue using the current version until filing its next rate case
13 that uses a 2017 test year.
- 14 • AWC agrees that going forward it will use its best good faith efforts to
15 reduce its cost of debt, and that any future debt will be prudently
16 incurred under the most reasonable terms and lowest cost reasonably
17 available.

18
19 **PUBLIC INTEREST**

20 **Q. How is the public interest satisfied by the Agreement?**

21 A. The Agreement satisfies the public interest from RUCO's perspective in
22 that it provides favorable terms and protections for residential consumers
23 as defined above. The Agreement also satisfies the public interest by

1 providing a fair and balanced approach to addressing the Company's, and
2 all intervening parties, concerns on required costs and revenue.

3

4 **Q. Does this conclude your testimony on the Agreement?**

5 **A.** Yes it does.